

Notes to the Accounts

for the year ended 31 December 2006

Presentation of the financial statements

Financial information for the year ended 31 December 2006 is presented in accordance with IAS 1 Presentation of Financial Statements. IAS 1 allows an entity to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and more relevant. The Group has adopted this mixed basis of presentation within its consolidated balance sheet as the non-current/current allocation is the more relevant presentation for the Group generally, whilst the assets and liabilities of the Group's life company business, Schroder Pension Management Limited, are more relevantly presented based on liquidity.

1. Summary of accounting policies

(a) Basis of preparation

The consolidated financial information contained within these financial statements has been prepared in accordance with International Financial Reporting Standards ('IFRS'), which comprise standards and interpretations approved by either the International Accounting Standards Board or the International Financial Reporting Interpretations Committee or their predecessors, as adopted by the European Union, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IFRIC 7	Applying the Restatement Approach under IAS 29
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

The consolidated financial information presented within these financial statements has been prepared on the historical cost basis, except for the measurement at fair value of derivative financial instruments and financial assets and liabilities that are available-for-sale or held at fair value through profit or loss. The carrying value of recognised assets and

liabilities that are hedged is adjusted to record changes in the fair values attributable to the risks that are being hedged. This valuation is in accordance with IAS 32 and 39.

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below.

Valuation of financial assets where there is no quoted price

Such assets principally consist of investments in private equity, venture and buy-out funds and are valued in accordance with International Private Equity and Venture Capital Valuation Guidelines and, where appropriate, by independent professional valuers. This determination requires significant judgement particularly in determining changes in fair value since the last formal valuation by the fund manager. In making this judgement the Group evaluates among other factors the effect of cash distributions and changes in the business outlook for each fund due to the financial health and performance of individual investments within each fund.

Impairment of assets

The Group tests annually whether goodwill and other assets that have indefinite useful lives suffered any impairment. Other intangible assets which have a finite useful economic life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Pension obligations

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/(income) for pensions include the expected long-term rate of return on the plans' assets and the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The expected return on plan assets assumption is determined on a uniform basis, taking into consideration long-term historical returns, asset allocation and future estimates of long-term investment returns. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Further information is given in note 4.

Surplus space

The Group periodically reviews its space requirements and makes provisions where the Group has no current need for space to which the Group is already contractually committed under the terms of an operating lease agreement. The calculation of the required provision requires significant judgement, as the Group needs to estimate the provision based upon discounted future cash outflows due to be paid under the lease less any potential cash inflows from sub-letting arrangements that the Group is able to negotiate. These cash flows are then discounted for the remaining lease period. In estimating these cash flows, the Group consults with external advisers in the relevant location to understand the potential to sub-let the space, the rental rates which could be achieved and the potential amount and time period of any leasehold inducements which may need to be offered to successfully secure a sub-tenant.

(b) Basis of consolidation

The consolidated financial information contained within these financial statements incorporates financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared to 31 December each year. Control is achieved

where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Where the Group controls an entity, but does not own all the share capital of that entity, the interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The accounts of subsidiary undertakings and associates are coterminous with those of the Company apart from those of certain undertakings which have accounting reference dates other than 31 December for commercial reasons. Management accounts made up to 31 December are used for such undertakings.

The results of subsidiary undertakings and associates acquired or sold are included from or to the date control changes.

Employee share ownership trusts have been established for the purposes of satisfying certain share-based awards. These trusts are fully consolidated within the accounts.

The Group has seed capital investments in a number of funds where it is in a position to be able to control those funds. These funds are consolidated unless they meet the criteria set out in policy (l) below to be designated as being held for sale, in which case they are classified and accounted for in accordance with that policy.

All intra-Group transactions, balances, income and expense are eliminated on consolidation.

(c) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

(d) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a

subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on the acquisition of subsidiaries is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Goodwill arising on the acquisition of associates or jointly controlled entities is included in the amount of the investments. Gains and losses on the disposal of an entity include the carrying amount of the goodwill relating to the entity sold. Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date and annually thereafter. Goodwill written off to equity prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

(e) Intangible assets – fund management contracts

The costs of acquiring intangible assets such as fund management contracts as part of a business combination are capitalised where it is probable that future economic benefits that are attributable to the assets will flow to the Group and the cost of the assets can be measured reliably.

The fund management contracts are recorded initially at fair value and then amortised over their useful lives on a straight line basis. The fair value at the date of acquisition is calculated using discounted cash flow methodology and represents the valuation of the net residual income stream arising from the fund management contracts in place at the date of acquisition. The contracts are included in the balance sheet as an intangible asset.

At each reporting date, an assessment is made as to whether there is any indication that an asset in use may be impaired. If any such indication exists and the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount is the greater of fair value less costs to sell and value in use.

(f) Intangible assets – software

The costs of purchasing and implementing software, together with associated relevant expenditure, are capitalised where it is probable that future economic benefits that are attributable to the assets will flow to the Group and the cost of the assets can be measured reliably.

Software is recorded initially at cost and then amortised over its useful life on a straight line basis. It is included in the balance sheet as an intangible asset.

At each reporting date, an assessment is made as to whether there is any indication that an asset in use may be impaired. If any such indication exists and the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount is the greater of fair value less costs to sell and value in use. Where intangible software assets are not yet available for use, an assessment of whether the carrying values exceed the estimated recoverable amount is made irrespective of whether there is any indication of impairment.

(g) Property, plant and equipment

The Group's assets include leasehold improvements, office equipment, computers and cars. Depreciation is provided on the depreciable amount over their useful lives on a straight line basis at rates varying between 20 per cent. and 33 per cent. per annum. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its economic life. Depreciation rates and methods as well as the residual values underlying the calculation of depreciation of items of property, plant and equipment are kept under review to take account of any change in circumstances.

The carrying values of these assets are reviewed for impairment at each reporting date. An assessment is made as to whether there is any indication that an asset may be impaired; if any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount is the greater of fair value less costs to sell and value in use. Impairment losses are recognised in the income statement.

(h) Associates and joint ventures

Associates comprise those undertakings, not being subsidiary undertakings, which carry out related activities, and where the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

Joint ventures comprise those undertakings, not being subsidiary undertakings, which carry on related activities, and where there is contractually agreed sharing of control over the financial and operating policy decisions of the investee.

Notes to the Accounts

for the year ended 31 December 2006

Investments in associates and joint ventures are accounted for using the equity method. The investments are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate or joint venture.

The income statement includes the Group's post-tax share of associates' and joint ventures' profits less losses for the year. Where a Group company transacts with an associate or joint venture of the Group, profits and losses are eliminated to the extent of the Group's interest in that associate or joint venture.

Where the Group has investments in funds over which it is able to exert significant influence but not control, the Group has applied the scope exclusion within IAS 28 investments in Associates for mutual funds, unit trusts and similar entities and has accounted for such holdings at fair value through the income statement.

(i) Financial assets

All investments are initially recognised at fair value, being the consideration given, including, where appropriate, acquisition charges associated with the investment.

After initial recognition, investments which are classified as held at fair value through profit or loss and available-for-sale are measured at fair value. Gains or losses, together with transaction costs, on investments held at fair value through profit or loss are recognised in the income statement. Such investments include the Group's liquid funds, third party hedge fund investments, certain private banking investments and seed capital investments which are not classified as being held for sale. Gains or losses, together with transaction costs, on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Such investments principally comprise investments in limited partnership funds and the Group's investment in SVG Capital plc.

For investments that are actively traded in organised financial markets, fair value is determined by reference to official quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined with reference to International Private Equity and Venture Capital Valuation Guidelines or by independent professional valuers.

For carried interests, fair value is the carry accruing to the carried interest holder at the close of business on the balance sheet date, based upon the fair value of the underlying assets within the relevant limited partnership fund.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

Where the Group has the positive intention to hold investments to maturity, such investments are designated as held to maturity. Such assets are measured at amortised cost, being the amount at which they are measured at initial recognition less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or irrecoverability.

(j) Derivative financial instruments and hedge accounting

Derivative contracts are included at fair value at the balance sheet date. Fair value represents the amount at which a derivative could be exchanged in a transaction at the balance sheet date between willing parties.

Where derivatives are held for risk management purposes, the Group formally documents the relationship between the derivative and any hedged item, its risk management objectives, its strategy for undertaking the various hedging transactions and its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value of hedged items.

In relation to fair value hedges such as forward foreign currency contracts which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

In relation to hedges of a net investment in a foreign operation, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement. On disposal of the foreign operation, the gain or loss on the hedging instrument recognised directly in equity is transferred to the income statement.

(k) Deferred tax

Deferred tax is provided in full, using the liability method, on all taxable and deductible temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

However, if the deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor taxable profit or loss, it is not accounted for. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax is provided on temporary differences arising on investments in subsidiaries, branches and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) Non-current assets held for sale

Non-current assets (and disposal groups) acquired exclusively with a view to subsequent disposal through sale or dilution are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell.

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date

of classification. At date of sale, post-tax gains or losses on such assets are taken to the income statement.

(m) Trade and other receivables

Trade receivables are recorded initially at fair value and subsequently at amortised cost. Loans and advances to banks and customers are accounted for at amortised cost using the effective interest method.

Impairments for specific bad and doubtful debts are made against loans and advances made by Private Banking subsidiaries and leasing receivables to reflect an assessment of irrecoverability and are deducted from the relevant assets. Such impairments are recorded within administrative expenses in the income statement.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. Where the Group considers that such items are not to be used for settling its liabilities, for example, securities with short maturity dates that will be rolled over as part of an investment portfolio, they are classified as financial assets rather than cash and cash equivalents. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts where such facilities form an integral part of the Group's cash management.

(o) Insurance unit-linked liabilities and assets backing insurance unit-linked liabilities

Investments in authorised unit trusts and other financial assets held by the life company are recognised and measured under IAS 39 which applies to investment contracts that do not meet the insurance contract definition under IFRS 4. Accordingly the life fund assets are carried at fair value, with gains and losses recorded in the income statement in the year in which they arise. The liabilities are also recorded at fair value.

(p) Financial liabilities: debt securities in issue

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised.

(q) Trade and other payables

Trade payables are recorded initially at fair value and subsequently at amortised cost. Deposits by banks and customer accounts are accounted for at amortised cost using the effective interest method.

(r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects to recover amounts provided, for example under an insurance contract, the recovery is recognised as a separate asset but only when the recovery is virtually certain.

For provisions for surplus space, where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

(s) Own shares

Employee trusts have been established for the purposes of satisfying certain equity-based awards. The holdings of these trusts include shares that have not vested unconditionally in employees of the Group (own shares).

Own shares are held for the short term to meet future award requirements and are recorded, at cost, as a deduction from equity.

(t) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest – non-banking

Interest on non-banking activities comprises amounts due on the Group's surplus capital and temporary surpluses or deficits in the Group's cash accounts held with banks. Interest receivable and payable is recognised using the effective interest method.

Interest – banking

Interest receivable on banking activities comprises interest receivable on debt securities and other fixed income securities, loans, advances and deposits placed, guarantee and commitment commissions, and is recognised using the effective interest method. Interest payable on banking activities comprises interest payable on deposits taken and debt securities in issue, and is recognised using the effective interest method.

Fees and commissions

Asset management fees, investment advisory fees, ad hoc advisory fees, custody fees, stock lending commission, commitment fees, arrangement fees, guarantor fees, and Directors' fees are accrued over the period for which the service is provided.

Private Banking transaction and loan related fees, together with fees from structured client facilitation transactions are accrued over the period for which the service is provided.

Asset management fees received in advance are taken to the balance sheet and amortised over the period of the provision of the asset management service. The period of provision of asset management service is estimated based on experience of average holding periods for investments in the separate geographical locations where such fees are earned. Redemptions are reviewed on an annual basis and the amortisation rate adjusted where there has been a significant and lasting change in redemption levels.

Asset management fees received in advance in respect of structured product funds and the reimbursement of any marketing and distribution fees paid to the distributor as agent of the fund are deferred and spread over the life of the fund. Such deferred fees are released to the income statement on redemption.

Performance fees are recognised on an accruals basis in accordance with the substance of the relevant contractual agreement.

Dividends receivable

Revenue is recognised when the shareholders' right to receive the payment is established.

Returns from Private Equity investments

After initial recognition, investments which are classified as held at fair value through profit or loss and available-for-sale are measured at fair value.